MILITARY HEALTH RESEARCH FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS
AND
FEDERAL AWARDS

For the year ended December 31, 2019

MILITARY HEALTH RESEARCH FOUNDATION, INC.

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UHY LLP
Certified Public Accountants

REPORT OF INDEPENDENT AUDITOR

Board of Directors
Military Health Research Foundation, Inc.
Laurel, Maryland

We have audited the accompanying financial statements of Military Health Research Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Military Health Research Foundation, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2021, on our consideration of Military Health Research Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Military Health Research Foundation, Inc.'s internal control over financial reporting and compliance.

UHY LLP

Columbia, Maryland
March 24, 2021

MILITARY HEALTH RESEARCH FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2019

ASSETS

CURRENT ASSETS		
Cash	$	163,862
Due from federal government		222,215
Prepaid expenses		1,997
Total current assets		388,074
PROPERTY AND EQUIPMENT		
Website, net		6,500
Total assets	$	394,574

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses		365,916
NET ASSETS WITHOUT DONOR RESTRICTIONS		28,658
Total liabilities and net assets	$	394,574

See notes to financial statements.

MILITARY HEALTH RESEARCH FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
For the year ended December 31, 2019

Activities in Net Assets Without Donor Restrictions	
Support and Revenue	
Federal cooperative agreements	$ 3,164,673
Contributions	710
Other income	3,594
Interest income	237
Total support and revenue	3,169,214
Expenses	
Program services	2,903,325
Management and general	566,597
Total expenses	3,469,922
Change in Net Assets Without Donor Restrictions	(300,708)
Net Assets Without Donor Restrictions, Beginning	329,366
Net Assets Without Donor Restrictions, Ending	$ 28,658

See notes to financial statements.

MILITARY HEALTH RESEARCH FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2019

	Cardiovascular Sonospectro-graphic Analyzer	Vascular Injury Project	Endovascular Perfusion Augmentation for Critical Care	Scientific Research	Total Program Services	Management and General	Total
Personnel costs:							
Salaries	$ -	$ 134,615	$ 19,854	$ 13,147	$ 167,616	$ 207,115	$ 374,731
Fringe benefits	-	35,102	15,245	4,772	55,119	90,087	145,206
Payroll taxes	-	10,298	1,519	428	12,245	13,714	25,959
Total personnel costs	-	180,015	36,618	18,347	234,980	310,916	545,896
Advertising	-	-	-	-	-	9,870	9,870
Amortization expense	-	-	-	-	-	2,600	2,600
Information technology	-	4,102	5,185	-	9,287	46,294	55,581
Consultants - other	38,500	20,375	51,075	7,680	117,630	37,908	155,538
Director fees	-	-	-	-	-	16,000	16,000
Dues and subscription	-	-	-	-	-	1,000	1,000
Equipment	-	-	159,661	-	159,661	-	159,661
Insurance	-	-	-	-	-	3,566	3,566
Conferences	1,308	-	-	-	1,308	50	1,358
Office expenses	-	-	-	-	-	19,067	19,067
Professional services	-	-	-	-	-	55,422	55,422
Research medical supplies	-	-	179,877	-	179,877	-	179,877
Subcontractors for research and project management	-	1,680,945	414,759	89,930	2,185,634	-	2,185,634
Travel	200	13,233	1,515	-	14,948	63,904	78,852
					-		
Total expenses	$ 40,008	$ 1,898,670	$ 848,690	$ 115,957	$ 2,903,325	$ 566,597	$ 3,469,922

See notes to financial statements.

MILITARY HEALTH RESEARCH FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
For the year ended December 31, 2019

Cash Flows from Operating Activities		
Change in net assets	$	(300,708)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization expense		2,600
Decrease (increase) in assets:		
Due from federal government		(197,578)
Prepaid expenses		371
Decrease in liabilities:		
Accounts payable and accrued expenses		(108,710)
Accrued payroll liabilities		(19,660)
Deferred revenue from cooperative agreements		(672,702)
Net cash used in operating activities and net decrease in cash		(1,296,387)
Cash, Beginning		1,460,249
Cash, Ending	$	163,862

See notes to financial statements.

NOTE 1 - NATURE OF THE ORGANIZATION

Military Health Research Foundation, Inc. (MHRF) is a nonprofit organization that is dedicated to the advancement of military technology and medical research to benefit the United States Armed Forces. MHRF provides a conduit between innovative researchers and sources of grants and other funding. MHRF provides enterprise, program, and project level research administration and provides solutions to specific tasking such as research process consulting, staffing support, and clinical trials.

Department of Defense research and development programs include the following programs:

Cardiovascular Sonospectrographic Analyzer - MHRF has been awarded a cooperative agreement for the Advanced Development and Commercialization of the Cardiovascular Sonospectrographic Analyzer (CSA) from the Department of Interior in support of the Air Force Medical Service (AFMS) mandate to enable readiness, health and force protection of members of the Air Force. The mission of the technology development is to improve early detection and treatment of cardiovascular diseases in order to minimize or eliminate damage to the heart. The research and development programs are conducted through contracts with AusculSciences, Inc. (formerly known as SonoMedica) which provides proprietary technology for diagnosis and monitoring of coronary heart disease.

Vascular Injury Project - MHRF has been awarded a cooperative agreement for the Transition of Advanced Trauma, Hemorrhage, and Vascular Injury Products from the Department of Interior. The agreement provides for the development, design, refinement, evaluation, certification, and transition of innovative dual-use technologies that will help revolutionize the delivery and efficacy of acute trauma and resuscitative care to patients suffering life threatening illnesses and injuries.

Endovascular Perfusion Augmentation for Critical Care (EPACC) - MHRF has been awarded a cooperative agreement for the Personalized and Adaptive Therapy for Resuscitation After Trauma from the Department of Interior. This agreement provides for the research and development of innovative patient-centered technologies to maintain physiological equilibrium in an effort to minimize preventable deaths for critically ill war-fighters by employing personalized, goal-directed precision critical care support in ways that were never before possible.

Scientific Research: MHRF has been awarded a cooperative agreement for the research and development of a Portable Ventilation Monitoring Optimizing Critical Care device from the Department of Defense in support of the Air Force Materiel Command. The objective of this effort is to develop: (a) a battery-operated device capable of collecting and integrating ventilation and physiologic metrics; (b) diagnostic algorithms capable of identifying common critical respiratory disease states and sub-optimal ventilation; and (c) integration of the device with the algorithms to create a robust, portable ventilation analytics monitor capable of battlefield deployment.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Due from Federal Government and Other Receivables

Receivables are valued at management's estimate of the amount that will be ultimately collected. Management considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. All amounts due from federal government and other receivables are due within one year.

Property, Equipment, and Website

Expenditures for the acquisition of furniture and equipment exceeding $5,000 with a useful life greater than one year are capitalized at cost. Depreciation of furniture and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Computer software and web applications, which include off-the-shelf software and costs related to the development of MHRF's website, are amortized using the straight-line method over the estimated useful life of the asset, generally three to five years. Maintenance and repairs are charged to operations and major improvements are capitalized.

Because certain assets may be acquired for programs funded by federal funds, proceeds from the sale of these assets may revert to the funding agency or the assets may be transferred to the funding agency, should the program be discontinued. Upon retirement, sale or other disposition of furniture and equipment, the cost and accumulated depreciation are eliminated from the accounts, and a gain or loss is included in operations.

Net Assets

Net assets, revenue, gains and losses are classified based on the existence or absence of contributions with donor-imposed restrictions. Accordingly, net assets of MHRF and changes therein are classified and reported as follows:

<u>Net assets without donor restriction</u> - Net assets without donor restrictions are available for use at the discretion of the Board of Directors (the Board) and/or management for general operating purposes. From time to time, the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion. Contributions and grants with donor restrictions that are used for the purpose specified by the donor in the same year as the contribution and grant is received are recognized as revenue without donor restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets with donor restrictions - Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. MHRF reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statement of activities as net assets released from restrictions. For the year ended December 31, 2019, MHRF had no net assets with donor restrictions.

Revenue Recognition

In 2018, grant revenue was recognized to the extent allowable expenses were incurred and contributions, including unconditional promises to give, were recognized in the period received or pledged.

Beginning in 2019, with the adoption of ASU 2018-08, MHRF recognizes government grants and cooperative agreements as either contributions or exchange transaction revenue, depending on whether the transaction is reciprocal or nonreciprocal. For contributions, revenue is recognized when a contribution becomes unconditional. Typically, a contract, grant or cooperative agreement contain a right of return or right of release from the respective obligation provision on the part of the grantor and MHRF has limited discretion over how funds transferred should be spent. As such, MHRF recognizes revenue for these conditional contributions when the related barrier to entitlement has been overcome.

Funds received in advance of incurring eligible expenses are accounted for as deferred revenue from cooperative agreements in the statement of financial position. MHRF records receivables due from federal government equal to the amount of unreimbursed expenses.

Conditional contributions and grants with a measurable performance and right of return are not recognized until the conditions on which they depend are substantially met. As of December 31, 2019, MHRF's outstanding conditional grants totaled approximately $2.5 million which will be recognized as revenue as conditions are met and expenditures are incurred.

Interest income is recorded as revenue when earned.

Income Taxes

MHRF is exempt from federal and state income taxes (except taxes on unrelated business income) under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as *other than a private foundation*. No provision for income taxes is required for the year ended December 31, 2019 since MHRF had no taxable income from unrelated business activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MHRF files an annual informational Form 990 with the Internal Revenue Service. The income tax positions taken by MHRF for any years open under the various statutes of limitations are that MHRF continues to be exempt from income taxes and that they have properly reported unrelated business income that is subject to income taxes. MHRF believes that there are no tax positions taken or expected to be taken that would significantly increase unrecognized tax liabilities within 12 months of the reporting date. None of MHRF's federal tax returns are currently under examination.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Expenses that can be identified with a specific program or supporting service are charged directly to that program or supporting service. Supporting services are comprised of general and administrative expenses and include those costs that are not directly identifiable with any specific program, but provide for the overall support and direction of MHRF. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Accordingly, certain overhead expenses have been allocated based on management's estimate of the program and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses, including the functional allocations, during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements Adopted

During 2019, MHRF adopted ASU No. ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized form costs incurred to obtain or fulfill a contract.

MHRF adopted these ASUs during 2019, using the full retrospective method. Implementation did not have a material impact on MHRF's financial statements.

NOTE 3 - INTANGIBLE ASSETS

MHRF's intangible assets at December 31, 2019 consisted of the following:

Website	$ 13,000
Less, accumulated amortization	(6,500)
Net value of intangible assets	$ 6,500

NOTE 4 - CONCENTRATIONS

Credit Risk

MHRF maintains its operating cash balance with one major financial institution. At times, the balance in the account may exceed federal insurance limits; however, MHRF has not experienced any losses with respect to the balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to the cash balance as of December 31, 2019.

Revenue

MHRF received a majority of its revenue from one federal government agency for all three cooperative agreements during the year ended December 31, 2019. Thus, MHRF's funding is vulnerable to changes in the legislative priorities of the federal government. A significant reduction in the level of support would have a material effect on MHRF's programs.

NOTE 5 - GOVERNMENT COOPERATIVE AGREEMENTS SUBJECT TO AUDIT

The cooperative agreement revenue and expenses are subject to audit by the federal government. As of the date of this report, management is unaware of any material adjustment that might be required as a result of any such audit.

NOTE 6 - RELATED PARTY TRANSACTIONS

For the year ended December 31, 2019, MHRF paid directors' fees of $4,000 to each of the board members, totaling $16,000.

NOTE 7 - LIQUIDITY AND AVAILABILITY OF RESOURCES

MHRF's financial assets that are available for general expenditures within one year of December 31, 2019 are as follows:

Cash	$	163,862
Due from federal government		222,215
Total financial assets available within one year	$	386,077

MHRF structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 8 - RETIREMENT PLAN

MHRF has a Section 401(k) defined contribution plan (the Plan) for its employees. Eligible employees may contribute a percentage of their annual compensation, subject to certain limitations, to the 401(k) defined contribution plan. Employer matching contributions are discretionary. For the year ended December 31, 2019, MHRF contributed $56,625 to the Plan.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 24, 2021, which is the date the financial statements are available to be issued.

Towards the end of December 2019, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. There have been mandates from federal, state, and local authorities requiring forced closures of non-essential businesses. Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, any significant reduction in revenue caused by COVID-19 could result in a reduction in programs and other material financial effects.

On June 14, 2020, MREF received a loan in the amount of $78,645 from a local bank under the Paycheck Protection Program (PPP). Established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), the PPP provides for loans to qualifying businesses and nonprofit organizations. The note bears interest at 1% and matures in two years; however, monthly payments are deferred for a period of ten months. PPP borrowers can qualify to have the loans forgiven if the proceeds are used to pay payroll and certain other eligible costs; however, the amount of loan forgiveness will be reduced under certain conditions.

NOTE 9 - SUBSEQUENT EVENTS (Continued)

MREF anticipates that a significant portion, if not all, of this loan will eventually be forgiven; however, until the forgiveness is received, the loan is reported as a liability in the statements of financial position. MREF will record forgiveness upon being legally released from the loan obligation.

On June 14, 2020, MREF received an Economic Injury Disaster Loan (EIDL) from the U.S. Small Business Administration (SBA) in the amount of $150,000. The note is secured by a Uniform Commercial Code security interest in all tangible and intangible personal property owned by the Sanctuary. Interest accrues at 2.75% from the date the loan was received; however, payment is deferred for one year. Each payment will be applied first to interest accrued to the date of receipt of each payment and the balance, if any, will be applied to the principal. The note was repaid in February 2021.

UNIFORM GUIDANCE
SUPPLEMENTARY INFORMATION

UHY LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Military Health Research Foundation, Inc.
Laurel, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Military Health Research Foundation, Inc. (MHRF), a nonprofit organization, which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 24, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MHRF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MHRF's internal control. Accordingly, we do not express an opinion on the effectiveness of MHRF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MHRF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the MHRF's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Accounting Standards* in considering MHRF's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

UHY LLP

Columbia, Maryland
March 24, 2021

UHY LLP
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Military Health Research Foundation, Inc.
Laurel, Maryland

Report on Compliance for Each Major Federal Program

We have audited Military Health Research Foundation, Inc.'s (MHRF) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of MHRF's major federal programs for the year ended December 31, 2019. MHRF's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MHRF's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MHRF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of MHRF's compliance.

Basis for Qualified Opinion on Research and Development Cluster

As described in the accompanying schedule of findings and questioned costs, MHRF did not comply with the requirements regarding CFDA No. 12.810 and 12.420 Research and Development Cluster described in finding 2019-001 for cash management. Compliance with such requirements is necessary, in our opinion, for MHRF to comply with the requirement applicable to that program.

Qualified Opinion on Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, MRHF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as finding number 2019-002 for Reporting. Our opinion on each major federal program is not modified with respect to these matters.

MHRF's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. MHRF's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of MHRF is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit of compliance, we considered MHRF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MHRF's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2109-001 that we consider to be material weaknesses.

MHRF's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. MHRF's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

UHY LLP

Columbia, Maryland
March 24, 2021

MILITARY HEALTH RESEARCH FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2019

Federal Grantor/Pass-Through Grantor/ Program Title or Cluster	Agreement Number	Federal CFDA Number	Total Federal Expenditures	Passed through to Subrecipients
Research and Development Cluster				
Department of Defense, Department of the Air Force				
Transition of Advanced Trauma, Hemorrhage, and Vascular Injury Products	D15AC00012	12.810	$ 2,049,451	1,489,807
Department of Defense, Department of the Army Medical Research Acquisition Activity				
Endovascular Perfusion Augmentation for Critical Care	W81XWH1820072	12.420	909,424	414,759
Total Research and Development Cluster			**2,958,875**	**1,904,566**
Department of Defense, Air Force Material Command				
VentRight Technologies: Portable Ventilation Monitoring Optimizing Critical Care	FA8650-20-2-6104	12.300	123,778	89,930
Total federal expenditures			**$ 3,082,653**	**$ 1,994,496**

See accompanying notes to schedule of expenditures of federal awards.

MILITARY HEALTH RESEARCH FOUNDATION, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal award activity of MHRF under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of MHRF, it is not intended to and does not present the financial position, changes in net assets, or cash flows of MHRF.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

MHRF has elected to use the 10 percent de minimis indirect rate as allowed under the Uniform Guidance.

MILITARY HEALTH RESEARCH FOUNDATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2019

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant Deficiency(s) identified	None reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major federal program:	
Material weakness(es) identified?	Yes
Significant Deficiency(s) identified	None reported
Type of report the auditor issued	Qualified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes

Identification of Major Program

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number		
Research and Development Cluster			
Department of Defense, Department of the Air Force			
Transition of Advanced Trauma, Hemorrhage, and Vascular Injury Products	12.810	$	2,049,451
Department of Defense, Department of the Army Medical Research Acquisition Activity			
Endovascular Perfusion Augmentation for Critical Care	12.420	$	909,424
Total research and devleopment cluster		$	2,958,875

Threshold for distinguishing between Type A and B programs	$	750,000
Did MHRF qualify as a low risk auditee?		No

MILITARY HEALTH RESEARCH FOUNDATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the prior year ended December 31, 2019

SECTION II. FINANCIAL STATEMENT FINDINGS

None noted

SECTION III. FEDERAL AWARD FINDINGS

Finding 2019-001
Federal agency: U.S. Department of Defense
Federal cluster: Research and Development
Program titles: Transition of Advanced Trauma, Hemorrhage, and Vascular Injury Products (VIP)
Endovascular Perfusion Augmentation for Critical Care (EPACC)
CFDA number: 12.810 and 12.420
Federal Award year: Various
Compliance Requirement: Cash Management
Type of finding: Noncompliance and Material Weakness

Criteria: In accordance with 2 CFR part 200.305 (Payment), the non-Federal entity may be paid in advance, provided it maintains or demonstrates the willingness to maintain both written procedures to minimize the time elapsing between the transfer of funds and disbursement by the non-Federal entity, and maintains a financial management system that meets the standards for fund control and accountability as established in DoDGAR section 32.21.

Advance payments to a non-federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs. The non-Federal entity must make timely payment to contractors in accordance with the contract provisions.

Condition: In 2019, MHRF did not have written procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement during the year resulting in excess funds transferred for seven out of the ten advances received. The advances received during 2019 were based on budgeted amounts and were not supported by a spreadsheet documenting the cash requirement needs.

Questioned Costs: None identified.

Context and Effect: Without written procedures and a cash flow projection to calculate the advance needed in order to minimize the time elapsing between the transfer of funds and disbursement, MHRF could be at risk for not being able to continue receiving advance payments.

SECTION III. FEDERAL AWARD FINDINGS (continued)

Finding 2019-001 (continued)

***Cause*:** MHRF did not have a written cash management policy regarding the compliance requirements specified in 2 CFR part 200.305 or DoDGAR section 32.21 and did not prepare cash flow projections to calculate immediate cash needs upon requesting drawdowns.

***Identification as a Repeat Finding, if Applicable*:** This is a repeat of prior year finding 2018-003.

***Recommendations*:** We recommend that MHRF prepare a spreadsheet to document the anticipated immediate cash needs to avoid requesting excess advances during the year.

***Responsible Official*:** President of MHRF

***Views of Responsible Official and Planned Corrective Action*:** The President of MHRF agrees with the auditor's findings and recommendations. One of the responsibilities of the outsourced independent accounting firm will be to reconcile the federal expenditures on a monthly basis and work with the President to ensure funds are drawn down in a timely manner and that such draws are based upon the monthly projected expenses incurred under the Federally funded programs.

Finding 2019-002
Federal agency: U.S. Department of Defense
Federal cluster: Research and Development
Program titles: Transition of Advanced Trauma, Hemorrhage, and Vascular Injury Products (VIP)
Endovascular Perfusion Augmentation for Critical Care (EPACC)
CFDA number: 12.810 and 12.420
Federal Award year: Various
Compliance Requirement: Reporting
Type of finding: Noncompliance and Material Weakness

Criteria: Non-federal entities that expend $750,000 for fiscal years beginning after December 26, 2014 shall have a single audit conducted. The audit package and data collection Form SF-SAC shall be submitted 30 days after receipt of the auditor's report or 9 months after the end of the fiscal year. In accordance with 2 CFR, 200.327 (Financial Reporting), non-Federal entities must use the standard financial reporting forms when reporting to the federal awarding agency

The single audit reporting package, including the Form SF-SAC is required to be reported to the Federal Audit Clearinghouse.

MILITARY HEALTH RESEARCH FOUNDATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the prior year ended December 31, 2019

SECTION III. FEDERAL AWARD FINDINGS (continued)

Finding 2019-002 (continued)

Condition**:** The single audit reporting package, including the audit report and data collection form for the prior year have not yet been submitted. MHRF did not have written internal control procedures regarding internal control over reporting.

Questioned Costs**:** None identified.

Context and Effect**:** MHRF is required to conduct an annual audit since the federal expenditures exceeded $750,000.

Cause: MHRF was unable to complete the reporting package due to delays in completing the audit.

Identification as a Repeat Finding, if Applicable**:** This is a repeat of prior year finding 2018-002.

Recommendation**:** We recommend that MHRF develop a policy for timely preparation, review, and filing of the audit and the single audit reporting package.

Responsible Official**:** President of MHRF

Views of Responsible Official and Planned Corrective Action**:** The President of MHRF agrees with the auditor's findings and recommendations, and hired an external accounting firm. One of the responsibilities of the outsourced accountant will be working closely with MHRF's President to ensure that all financial reports are timely audited and filed.

MILITARY HEALTH RESEARCH FOUNDATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the prior year ended December 31, 2019

SECTION IV. STATUS OF PRIOR YEAR FINDINGS

2018-001: Proper Period Cutoff for Accounts Payable

Context: Unrecorded accounts payable were identified for $151,667 and accounts payable were overstated for $93,407. Procedures to detect proper recording of liabilities were not in place.

Current Status: Corrective action was implemented during 2019 and no repeat finding for the year ended December 31, 2019.

2018-002: Reporting

Context: The monthly Funds and Man Hour Expenditure reports, and the quarterly and annual SF-425 financial reports were not filed timely. The audit package and data collection form for the year ended December 31, 2018 have not yet been filed with the Federal Audit Clearinghouse.

Current Status: The annual SF-425 has been filed. Repeat finding for the audit package and data collection form not being filed timely for the current year.

2018-003: Cash Management

Context: MHRF did not have written procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement during the year resulting in excess funds throughout the year. In addition, the advances received were not maintained in an interest-bearing checking account.

Current Status: MHRF established an interest-bearing checking account and is maintaining advances in the interest-bearing account in the current year. The findings for written procedures and receiving funds in excess of disbursements is a repeat finding.

Military & Health Research Foundation

MILITARY HEALTH RESEARCH FOUNDATION
MANAGEMENT'S CORRECTIVE ACTION PLAN
For the year ended December 31, 2019

Federal agency: U.S. Department of Defense
Federal cluster: Research and Development
Program titles: Transition of Advanced Trauma, Hemorrhage, and Vascular Injury Products (VIP)
Endovascular Perfusion Augmentation for Critical Care (EPACC)
CFDA number: 12.810 and 12.420

Contact Person Responsible for the Corrective Action Plan:

Ramsey Taweel, President and CEO of MHRF

Findings 2019-001 and 2019-002

Corrective Actions Taken or Planned by Management:

(1) In April 2018, MHRF hired an outsourced independent accountant with expertise in federal grant internal control and compliance.

(2) MHRF will prepare written cash management procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursements to avoid excess cash funds.
MHRF has prepared and implemented a cash management policy, effective January 1, 2020.

(3) MHRF will prepare a spreadsheet to document the anticipated immediate cash needs prior to obtaining cash advances to avoid requesting excess advances. MHRF implemented the use of a cash needs analysis in January 2020. Requests for reimbursements for expenditures will be reconciled the amount expended.

(4) MHRF will expand the accounting records to segregate the revenue recorded in the general ledger for each cooperative agreement. MHRF has implemented the process to segregate the revenue as of January 1, 2020 and is reconciling the revenue to the cash disbursements by grant.

(5) MHRF will prepare written reporting procedures to timely file the monthly Funds and Man Hour Expenditure reports, and the quarterly and annual financial reports, SF-425, within the required deadlines specified in the cooperative agreements. MHRF has implemented written reporting procedures to ensure timely filing of required reports as of January 1, 2020.

(6) MHRF has engaged an audit firm to perform the audit on a timely basis and MHRF will file the audit package and the data collection form within 30 days after receipt of the auditor's report to the Federal Audit Clearinghouse.

The above corrective action plans have been confirmed by management of Military Health Research Foundation, Inc.:

Ramsey Taweel
CEO & President

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